

Internal Revenue Service  
Internal Revenue Service

District  
Director

Department of the Treasury  
Department of the Treasury

1100 Commerce St., Dallas, Texas 75242

Date: JUL 2 1997

Employer ID Number: [REDACTED]

Person to Contact: [REDACTED]

Telephone Number: [REDACTED]

Refer Reply To: [REDACTED]

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(8) of the Internal Revenue Code.

You were incorporated [REDACTED] in [REDACTED]. Your purposes as stated in your Articles of Incorporation are charitable, educational, and scientific purposes, including: A) Encouraging and assisting in the research, development, promotion, and growth of technological and innovative small businesses through a computer network and other forums; B) Encouraging, promoting, and sponsoring educational programs, institutes, and forums to assist in the improvement, fostering, and promotion of technology research and innovation; C) To conduct any other lawful business incident thereto or in furtherance thereof.

Your primary purpose is to facilitate the match in [REDACTED] between private investors looking for opportunity and entrepreneurs seeking capital. Your primary activity is to manage a confidential database of entrepreneurs and private investors in [REDACTED]. The steps to accomplish this activity include the following: A) Private investors complete an application profiling their Investment Criteria. Entrepreneurs submit a brief summary of their Investment Opportunity; B) An automated screen matches parties according to their respective interests and the administrator sends investors only to those investment opportunities meeting their Investment Criteria; C) Entrepreneurs are introduced to investors expressing an interest in their Investment Opportunities; D) You withdraw from any further involvement in the relationships developed between entrepreneurs and investors other than collecting outcome data on the matches you initiate. This matching activity is confined to [REDACTED] and began in [REDACTED].

Your secondary activity will involve organizing and sponsoring seminars and educational programs. This activity is also confined to [REDACTED] and began in [REDACTED].

You anticipate that your principal funding will be the fees charged entrepreneurs and investors for access to the program. Fees for entrepreneurs are [REDACTED] per year. Investors will pay a similar fee, although there will be no charge during your first twelve months of operations.

Article III of your Bylaws states the corporation shall have no members. In response to the application question regarding qualifications for members, you responded that the question was not applicable. Your support is from fees, grants, and contributions; you have no membership dues.

Section 501(c)(6) of the Internal Revenue Code provides exemption for:

"Business leagues, chambers of commerce, ... not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual."

Section 1.501(c)(6)-1 of the Income Tax Regulations provides that, for an organization to be exempt, its activities must be:

"...directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons..."

Section 1.501(c)(6)-1 of the Income Tax Regulations provides that:

"A business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit...even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining..."

In MIB, Inc. v. Commissioner, 734 F. 2d 71 (1st Cir. 1984), the court noted that a business league must not only improve the conditions of a line of business, but must do so in a way different from simply supplying products or services to its individual members. The principal activity was the maintenance of a computerized system for gathering, storing and distributing to members, upon their request, confidential underwriting information. The information gathered and disseminated is obtained exclusively from its member companies. The court found that MIB's information exchange, developed around responding to individual member requests for data relevant to applicants seeking to buy insurance from that member, is a service that helps the member decide whether or not to sell insurance to the applicant. It is a service that clearly has commercial benefit to the individual member. The court indicated that while it may also confer general benefit upon all members and act in the collective interest as a deterrent the services are "particular services for individual persons".

Revenue Ruling 79-31, 1979-1 C.B. 206, describes an organization that operates a fringe parking lot, shuttle bus service, and a park and shop plan by an organization exempt from federal income tax under section 501(c)(6) of the Internal Revenue Code. Its primary purpose is to retain and stimulate trade in a particular city's downtown area that has inadequate parking facilities. Its activities include operation of fringe parking facilities and a shuttle bus service to and from the downtown area. This stimulates and improves business conditions in the downtown area generally, thereby contributing importantly to the accomplishment of the organization's exempt purpose. However, the operation of a park and shop plan, which encourages persons to patronize a limited number of participating member merchants in order to obtain free parking constitutes the provision of a particular service to

individual members of the organization, and thus does not further the organization's exempt purposes.

Revenue Ruling 68-265, 1968-1 C.B. 265, describes a nonprofit organization formed to foster the interests of persons engaged in a particular line of business. The primary activity of the organization is furnishing credit information service to its members. No special charge is made for this service. Income is derived exclusively from dues and interest on its bank balance. This organization was held not to be exempt under Code section 501(c)(6) because its primary activity was the performance of particular services.

You do not meet the requirements for exemption under Code section 501(c)(6). Since you do not have any members, you do not meet the basic requirement of Regulation 1.501(c)(6)-1 that a business league is an association of persons having some common business interest. You have officers and directors, but no members. You have applications for investors and entrepreneurs, and you provide a service for these people, but they are not members of your organization.

In addition to failing the requirement to promote the common business interest of your members, you are engaged in a business of the kind ordinarily carried on for profit, which also precludes exemption under section 501(c)(6) of the code. You have stated in your response letter of [REDACTED] that other [REDACTED] in the country charge as much as [REDACTED] for entrepreneurs and [REDACTED] for investors, indicating that this activity is a for profit business service.

Like the organization in MIB, Inc. v. Commissioner, supra, your primary activity is the performance of particular services that relieve your members of the necessity of securing the service commercially (or performing the service on an individual basis) in order to properly conduct their business, resulting in a convenience or economy to the member. Your activities should be classified as "particular services" for purposes of Regulations section 1.501(c)(6)-1.

You can be distinguished from the organization described in Revenue Ruling 79-31, supra. This organization's primary activity was to provide shuttle bus service and a fringe parking lot. This promoted the downtown area in general and was not a particular service for its members. Your activities are substantially similar to this organization's operation of a park and shop plan which provided particular services to its members and does not further the organization's exempt purpose.

Like the organization described in Revenue Ruling 68-265, supra, the exchange of information among the participants in your program is a clear convenience and economy to them in their businesses, resulting in savings and simplified operations. Accordingly, this activity constitutes the performance of particular services for individual persons.

Since you are not an association of persons having some common business interest, and your primary activity is the provision of "particular services for individuals" rather than promoting one or more lines of business, you do not qualify for exemption under section 501(c)(6) of the Internal Revenue Code and you are required to file income tax returns on Form 1120.

[REDACTED]

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely,

*Bobby E. Scott*

Bobby E. Scott  
District Director

cc; [REDACTED]

Enclosures:  
Publication 892  
Form 6018